

Martin Currie Emerging Markets Fund

JUL 2022 | Commentary

Investment objective

The Fund aims to deliver capital growth by investing directly or indirectly in equities of companies that are quoted in or operating in one or more countries deemed to be emerging markets. The Fund aims to generate after fee returns in excess of the MSCI Emerging Markets Index expressed in Australian dollars over rolling five-year periods.

Performance (%)

	1 mth	3 mths	1 yr	3 yrs pa	5 yrs pa
Fund (net)	-0.28	-5.35	-23.58	0.47	4.44
Benchmark	-1.70	-4.74	-15.82	0.48	3.71

Calendar year performance (%)

	2021	2020	2019	2018	2017
Fund (net)	1.79	14.94	28.22	-9.11	38.77
Benchmark	3.44	7.77	18.61	-5.10	27.09

Fund details

Inception date	September 2011
Benchmark	MSCI Emerging Markets Index (AUD)
ISIN	AU60ETL02010
APIR	ETL0201AU

Monthly review

What happened in the market?

In July, the MSCI Emerging Market Index was down 1.70% in Australian dollar terms. During the month, we saw broad-based strength across most emerging markets with the exception of China/Hong Kong. Korea and Taiwan were strong performers as there was some recovery in technology sector sentiment this month.

What happened in the Fund?

The Fund was down 0.28% over the month of July considerably outperforming the index.

At the stock level, Titan posted good results exhibiting strong business mix growth across all of its retail products and channels (bullion, jewellery, watches, eyewear). Consumption recovery is being driven by growth out of Tier 2/Tier 3 cities and new store openings for Titan. ICICI Bank outperformed the market amidst a positive macro-outlook in India with lower commodity prices as some investors had been concerned about higher inflation. The company posted strong results, demonstrating best-in-class fundamentals and extremely strong loan growth and pre-provision operating profit. Meanwhile, Samsung Electronics benefited from the recovery in semiconductor stocks globally.

On the other side, Tencent was impacted by the news that Prosus (which is an investor in Tencent) would be allowed to sell shares in the open market. The gaming business has seen some stabilisation but not growth recovery as investors wait for regulatory approvals for new games. It was also impacted by negative sentiment in the regulatory space. Alibaba announced an application for a dual primary listing in Hong Kong which should alleviate fears behind US de-listing. The stock was negatively impacted by rumours surrounding Ant financial and the general trend of muted online spending and consumption activity post-Covid reopening. Meanwhile, China Merchants Bank was negatively impacted by broader Chinese bank weakness following the news of a mortgage payment suspension for the sector. This was exacerbated by weak property market sales data being published.

During July, we sold Delivery Hero. While many of the facets that first attracted us to Delivery Hero have remained intact, we do not support some of the management team's recent actions and changing capital market dynamics have ratcheted up the requirement to deliver on profitability. We fundamentally disagree with recent capital allocation decisions, specifically the decision to press on with the acquisition of loss making Glovo at a time when financing conditions for Delivery Hero's overall business has become much more expensive and harder to source. The lack of willingness and openness of management to engage on this material issue fell well below our expectations. While the stock has participated in market rotation, performance has been in line with other similar businesses and does not fully reflect these circumstances. We also purchased Wuxi Biologics for the portfolio. It is China's largest contract research, development and manufacturing organisation (CRDMO) and is a compounder with a strong competitive position in the industry, benefiting from structural trends of growth in pharma biologics and increased outsourcing.

Highlights

- A high conviction Fund of the best emerging market companies identified by Martin Currie's fundamental bottom up research process
- Focuses on companies where the investment team believes long-term growth prospects are not yet reflected in their stock prices
- Flexible Fund construction as investments are not restricted by market cap, country or sector limits

About us

Franklin Templeton

Franklin Resources, Inc., is a global investment management organisation, operating as Franklin Templeton, which is headquartered in California. Franklin Resources, Inc., provides, through its subsidiaries, deep investment expertise across all asset classes - including equity, fixed income, and multi-asset solutions. Franklin Resources, Inc. is listed on the New York Stock Exchange and has employees in over 34 countries.

Martin Currie

Martin Currie, our global equity specialist manager, has had a presence in Australia since 1954. Today Martin Currie is a leading provider of active equity solutions in Australia, managing a growing suite of equity, multi-sector and tailored strategies across a common investment research platform.



Ratings

Quantitative



The Morningstar Analyst Rating™ for Martin Currie Emerging Market strategy is 'Bronze' as at June 2022.



The Martin Currie Emerging Markets Fund received an overall rating of 4 stars out of 80 Equity Emerging Markets funds as of 31 May 2022.

Qualitative



For enquiries, please contact Investor Services Team on 1800 673 776, email auclientadmin@franklintempleton.com or visit franklintempleton.com.au.

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